

# For a Smaller but Better Government. Government and Marketisation of Public Service Delivery in an Age of Transition

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**FOR A SMALLER BUT BETTER GOVERNMENT.  
GOVERNMENT AND MARKETISATION OF  
PUBLIC SERVICE DELIVERY IN AN AGE OF TRANSITION**

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## **Summary**

### **FOR A SMALLER BUT BETTER GOVERNMENT. GOVERNMENT AND MARKETISATION OF PUBLIC SERVICE DELIVERY IN AN AGE OF TRANSITION**

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In an age of transition of CEE-countries from the communist command economy to a capitalist market (or mixed) economy, the debate on the relation between government and the market goes on but enters a new stage. On the one hand, a strong market needs a strong government. Both go hand in hand. On the other hand, the provision of public services can substantially be improved by making use of so-called 'market devices', either in the private sector but or and even inside the public sector. Some labels of the debate are: 'marketisation' of public services; public services and market mechanisms; competition, contracting and the New Public Management.

In this chapter the new relations between government and the market in an age of transition are analysed. We start the argument with an analysis of bureaucracy as problem of big government. Then, three ways to fight bureaucracy are explored. The debate between reinvented versus rediscovered government is covered next. Subsequently, we discuss some problems for entrepreneurial government. Four market devices for public service delivery are analysed shortly and four fundamental questions are raised. Finally, contingency conditions are discussed. The chapter closes with a short conclusion about the ultimate goal and lessons learned.

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## **1. Introduction**

In an age of transition of CEE-countries from the communist command economy to a capitalist market (or mixed) economy, the debate on the relation between government and the market goes on but enters a new stage. On the one hand, a strong market needs a strong government. Both go hand in hand. On the other hand, the provision of public services can substantially be improved by making use of so-called 'market devices', either in the private sector but or and even inside the public sector. Some labels of the debate are: 'marketisation' of public services; public services and market mechanisms; competition, contracting and the New Public Management (see Walsh, 1995).

In this chapter the new relations between government and the market in an age of transition are analysed. We start the argument with an analysis of bureaucracy as problem of big government (section 2). In section 3 three ways to fight bureaucracy are explored. The debate between reinvented versus rediscovered government is covered in section 4. In section 5 we discuss some problems for entrepreneurial government. In the next section four market devices for public service delivery are analysed shortly. Four fundamental questions are raised in section 7. Contingency conditions are mentioned in section 8. The chapter closes with a short conclusion about the ultimate goal and lessons learned in section 9.

## **2. Bureaucracy as Problem of Big Government**

The classical organisation of government is Bureaucracy. The theoretical model of the bureaucratic organisation has been developed by Max Weber (Weber, 1947). Bureaucracy is a formal organisational structure, featured by differentiation (division of labour), hierarchy and positions based on expertise. The classical bureaucracy is the best example of a vertical and hierarchical organisation. The bureaucratic model of Weber contains both structural and behavioural characteristics. Behavioural characteristics are present in various devices of discipline and control. Formalisation and objectivisation of rules and regulations result in bureaucratic behaviour. The bureaucrat does his job precisely and consistently. Citizens are treated anonymously and impartially, 'sine ira et studio'. In this model, structural features are the most important. As structural features become more dominant, the bureaucratic organisation becomes more rational.

However, this does not hold for behavioural characteristics. Preciseness, consistency and impersonality may at a certain point prevent the realisation of formal objectives of the organisation; structural characteristics as differentiation, hierarchy and recruitment on basis of expertise may coincide with imprecise, inconsistent and personal behaviour of the bureaucrat. This is one reason why the classical Weberian model of bureaucracy is no longer dominant in scientific thinking about bureaucratic organisations, but has been confronted with other bureaucracy models, in particular the economic model of bureaucracy (see Niskanen, 1971). In the economic approach, bureaucracies are determined by budget systems, by not for profit-motives and by policy supplies as package deals (and not on a quid pro quo basis).

Four changes have taken place in the practical operation and functioning of government bureaucracies. The classical distinction between politics and administration (invented and advocated by Woodrow Wilson, the founder of modern public administration) is disappearing. Politics was considered to take the policy-decisions, bureaucracy was responsible for policy-implementation. However, bureaucrats have a large advantage in expertise above politicians. Hence they have substantial political influence and power in the stage of policy preparation. In

the implementation stage they also have much power and discretionary privileges, as technical implementation prescriptions cannot be determined completely and precisely in the decision-making stage.

Secondly, there has been an enormous quantitative growth of government. Big government resulted from a continuously increasingly appeal since 1945 on government as modern 'problem solver'. The expansion of the welfare state since the nineteen fifties was another factor in favour of big government.

Thirdly, the organisation of government has developed its own dynamics, both in quantitative and qualitative sense. The growth of government resulted in more growth, in particular as constantly new policies have to be developed and implemented in order to repair problems of previous policies that proved not to work (the phenomenon of 'policy-accumulation'). In this way, government was not longer considered to be a solution to the problem, but increasingly became part and even cause of the problem (as president Reagan stated in his inaugural address in 1980).

Fourthly, during the nineteen eighties government itself became subject to severe criticisms as a result of alleged seize of power by the bureaucracy, the quantitative growth of government, and the lacking problem solving capacities of government. After a long period of quantitative changes of government (more bureaucrats, more budgets, more government organisations, more government activities), the odds changed towards qualitative change of government: a smaller but better government became the parole in politics and society.

Citizens do not longer accept a Big Government that costs large amounts of taxpayer's money and does not solve the problems it is expected to solve. Citizens do also not longer accept that government organisations treat them as passive objects of public policies, instead of as active consumers, clients and even co-makers of public policies. Just as in modern society, in modern government the vertical and hierarchical command model of organisation is no longer valid. This classical model is substituted by a more modern model of horizontal and democratic organisation of government, in which negotiation and consultation are vehicles for decision-making (see Ostrom, 1973). Modern government is changing in reaction to the changing environment of government, i.e. modern society.

### **3. Three Ways to Fight Bureaucracy**

Three answers and solutions can be formulated to these problems of Big Government. These three answers are at least partially determined by political ideology. The first answer is a radical one: the complete abolishment of government and a complete fallback on the market and price mechanism. However, we all know that there is still such a thing as 'market failure'. 'Government failure' is not a sufficient condition for surrender to 'market fetishism' (see Wolfe, 1979; 1983; 1988). The second answer is more moderate one: more political control on government and bureaucracy. Political reformers, faced with the power of a bureaucracy, are always trying to solve this problem by making proposals to sharpen the external control of the bureaucracy: better organisation of parliament, more guidance and control of ministries and departments by ministers, better financial management, an ombudsman, systematic policy analysis, and so on. However, these measures are bureaucratic themselves and hence will have little effect: as limited as internal control of the bureaucracy is, will be external control. Bureaucracy cannot be fought with more bureaucracy.

Public choice-analysis of the bureaucracy problem teaches us an important lesson: that the heart of the problem lies in two characteristics of bureaucracy: hierarchy and monopoly. The

combination of both is extremely dangerous, because it results in bureaucratic power as is shown by the analysis of Van den Doel and Van Velthoven (1993: pp. 148-174). Hence, the hierarchical structure and the monopoly position of the government bureaucracy should be demolished. Monopoly should be substituted by competition and hierarchy by democracy.

The concept of 'public entrepreneurship' provides promising possibilities for radical reform of the government bureaucracy, especially by injecting mechanisms of competition and democratic control into public organisations. Public entrepreneurship seems to provide an escape from the dilemma between market fetishism on the one hand and bureaucratisation on the other hand. An analytical distinction has to be made between two levels of public entrepreneurship: the level of the public organisation and the level of the public official. At the first level, the bureaucratic organisation of government has to be changed into a more entrepreneurial one. At the second level, the bureaucratic official and department within the government have to be changed into a more entrepreneurial one. Entrepreneurship as a characteristic of public organisations and as a characteristic of public officials can be connected by the sociological role-concept.

#### **4. Reinvented versus Rediscovered Government**

In a book that attracted worldwide attention, the American authors David Osborne and Ted Gaebler (1992) developed an extensive argument for a complete transformation of bureaucratic government into entrepreneurial government. In their view, government should not be abolished, but should be 'reinvented'. The classical model of government, employed in the Progressive Era and New Deal, is one of in-house program implementation and service delivery by hierarchically organized administrative departments, run by professional managers in accord with operational rules and fiscal checks. According to Osborne and Gaebler, this model was originally adopted to rid the country of inept patronage machines (just as in Europe the classical model of bureaucracy was introduced to get rid of inadequate political favouritism!). However, in this era of global competition, instant communication, a knowledge-based economy, and niche-markets, such industrial era bureaucracy is alleged to produce mediocracy, inflexibility, and an obsession with control: 'controlitis'.

To replace this model of government, a new form of 'governance' should be created at all levels of government. In the United States, a programme for reform of federal government (NPR, the National Performance Review) under supervision of vice-president Al Gore has been launched in 1993, which has been inspired by the idea of 'entrepreneurial government', i.e., a government that is adaptable, responsive, efficient, and effective. Such a government must be able to produce high quality goods and services, be responsive to customers, be led by persuasion and incentives rather than command, empower clients, and - above all - be entrepreneurial.

Osborne and Gaebler formulated the following list of *Ten Principles* to achieve this fundamental transformation of the organisation of government.

1. Government should skilfully select alternatives to in-house delivery, such as contracting out, entering into public-private partnerships, and utilizing such devices as vouchers, volunteers, seed money, and quid pro quos.
2. Professional administrators should not run all aspects of programs but instead empower clients to participate in management by means of governing councils and management teams.
3. Competition should be injected into the governing process by such methods as bidding for tasks, internal rivalry among subunits, and competition among services for clients.

4. Agencies should minimize the number of rules by which they operate. To be eliminated are line-item budgeting, year-end fund expiration, and detailed job classifications. Once freed up, the organizations should dedicate themselves to a clear, one-niche mission.
5. Review of agency-performance and fund allocation should be based not on program inputs but on policy outcomes.
6. Clients must be regarded as customers. This calls for giving them choices, surveying their attitudes, making services convenient, training employees in customer contact, test marketing, and providing 800 numbers and suggestion forms.
7. Governments should not just spend money, but earn it as well, for example from use fees, shared savings, enterprise funds, entrepreneurial loan pools, and internally competitive profit centres.
8. Governments should not just deliver services to meet ends, but prevent needs from arising in the first place. Examples are fire prevention, preventative maintenance, recycling, antismoking campaigns, accrual accounting, and regional government.
9. Centralized institutions should become decentralized, with hierarchical control giving way to devolved authority, teamwork, participatory management, labour-management cooperation, quality circles, and employee development programs.
10. Governments should not attempt to achieve ends only by command and control, but also by restructuring markets. Illustrations are subsidized health insurance, incentives for downtown investment, and emissions trading.

So far these 'Ten Principles for Entrepreneurial Government', which have been formulated in somewhat exaggerating terms. Not the formulations, however, but the contents of these principles are relevant for discussion and criticisms. This brings us to the pros and cons of the central philosophy of public entrepreneurship. The concept of public entrepreneurship has been criticised severely by many, in particular by specialists in the field of public administration (see the special volume of *Public Administration Review* on 'Reinventing Government', March/April 1994). In a book review in *Public Administration Review* of Osborne and Gaebler's *Reinventing Government*, Charles Goodsell (1993: pp. 85-87) criticises their approach and ideas of entrepreneurial government and public entrepreneurship in a rather fundamental way. In reaction to their ten principles of public entrepreneurship, Goodsell formulated his 'Ten Principles of Rediscovered Government'.

1. Through their elected representatives, the people are in charge of American governance, not the entrepreneurs.
2. Government is intended to serve the public interest, not create unspent reserves or feed entrepreneurial egos.
3. Government must operate according the Constitution and laws of the land, not niche mission statements.
4. Government can enter into partnerships with private entities as long as it is the senior partner.
5. Government should be flexible and innovative, but also publicly accountable.
6. Performance results must be demanded in government, but also respect for the public employees who make them happen.
7. In government, private managerial conduct must comply with the non-private ideals of equal opportunity and open scrutiny.
8. Simplification of rules is fine, but not dilution of the principles of comparable treatment and due process.
9. Reduction of fiscal constraints is acceptable, but not a lessening of requirements for stewardship over the public's money.



10. Public problems should be dealt with publicly, but not as to give away the store to those who will benefit.

In sum, Goodsell argues that public administration is not obsolete. Nobody has really argued it is, not even public choice theorists. However, if there would raise conflicts and contradictions between Osborne and Gaebler's ten principles for public entrepreneurship and reinventing government and Goodsell's ten principles for classical bureaucracy and rediscovering government, Goodsell makes his choice. That is one way to solve a potential dilemma.

A better way is to investigate seriously the validity and presence of such contradictions, to determine which principle has priority in case of inevitable conflicts, and to balance and compromise between both principles if possible. The real question is, whether both approaches, resulting in two different lists of ten principles, can be reconciled. If such reconciliation is not possible, a lexicographic ordering of the two approaches could be considered, in which the one point of view functions as a prerequisite for the other. Economists have learned to optimise, not to maximise, but given the amount of available information optimising and maximising is the same thing!

## **5. Problems of Entrepreneurial Government**

Entrepreneurial government functions as the organisational framework within which the entrepreneurial bureaucrat operates. On the micro-level of public service delivery this results in an increasing demand for more client-orientation, and in connection with this professionalisation and productivity improvement of public organisations. Client-orientation, professionalisation and productivity improvement are the key-concepts, by which the entrepreneurial bureaucrat in an entrepreneurial government organisation can be characterized. For a better understanding of the importance of the entrepreneurial bureaucrat, the following roles of government should be distinguished:

Role 1: the government as regulator of society as a whole;

Role 2: the government as financier, sponsor or subsidiser of activities in the non-commercial non-profit sector and in the commercial private sector;

Role 3: the government as provider of public goods and services to citizens, or as public service deliverer.

Concepts as 'government as entrepreneur' and 'entrepreneurship in the public sector' refer to the third role of government that of public service provider.

The organisation of government, however, has some specific organisational features, which cause some serious problems for using market devices in public service delivery. The following factors may impede improvement of public service delivery.

-Government organisations have to serve several target groups of the population who have to be reckoned with and between whom sometimes choices have to be made.

-The translation of public tasks into specific public products is difficult: often more abstract varieties of public services are at stake, which hardly can be recognised as products.

-Many times there is no clear demand for public goods and services: they are imposed on the citizens, resulting in forced and not in voluntary consumption. Sometimes these public services are producing favourable conditions, sometimes they are innovative.

-The organisation of government has its own specific culture of rules, habits, and laws. This legal culture offers little space for client-oriented formulations.

- In the organisation of government incentives to client-orientation are lacking. in case of a government monopoly, the client is dependent on the government and not the other way around;
- By nature, the bureaucrat is a-commercial: he is not recruited on basis of his sales capacities and he is not trained in acquiring such capacities.
- Selling policies in the public sector limited to providing information, but in particular in government organisations this activity has a very low status.
- When several target groups of the population are at stake, government organisations have serious problems in making strategic choices (target group selection), because for instance this might be considered as discrimination.
- Government is considered by the citizens as an organisational unity, whereas at the bottom level of government organisations, where contacts with clients are concentrated (street level bureaucracy), internal coordination is lacking or is insufficient.
- Government is not accustomed to think in terms of results: in many cases measurement of government performance is difficult.

## 6. Four Market Devices for Public Service Delivery

A variety of market devices have been proposed and adopted for the reform of state bureaucracy in the Western world (Walsh, 1995: pp. xvii ff.). The first is the *introduction of pricing and charging for public services*, in order to create market pressures on politicians and officials. More services are charged for, and charges have been brought closer to those that might apply in a free market. There have been attempts to give the users of public services the ability to act as customers with choices through the use of real money, or by the proxy of vouchers. There is extensive development of pricing and charging within public service organisations, involving a move from 'hierarchies' to 'hierarchies with markets'. Finally, internal privatisation is on the move. This comes all together into 'the power of the purse', that empowers citizens as clients to demand and receive 'value for money'.

The second mechanism for changing public service management is the *development of contract*. The simplest form of contract is the buying in of services from private providers. The public organisation may be allowed to compete with private providers in a market-testing programme (or work even may be externalised). Contract is used to characterise relationships within the organisation as those with private providers; authority relations are being redefined as contracts. Contract is also linked with performance measurement to produce an individual focus on the public sector worker or department, making the employment contract more like that for purchase on the market. The public service is becoming a 'nexus of contracts', rather than a bureaucratic hierarchy.

The use of prices and contracts is being extended through the *development of internal markets*, for instance in the National Health Service in the UK but increasingly in other public services. Purchaser and provider are separated. They relate to each other through quasi-contracts, with prices and charges operating to ensure the match of demand and supply. Internal purchasers are increasingly free to buy where they want, which puts downward pressure on service costs and creates incentives for productivity and efficiency growth. As purchasers act as surrogates for ultimate users, they are forced to be more explicit about the rationing decisions they make.

Finally, large bureaucratic public service organisations are being broken down into smaller independent units, with autonomy to operate relatively freely. Schools, colleges, hospitals and many other public service deliverers have been allowed more independence from

supervising authorities. Their autonomy has been increased through the creation of internal agencies operating at 'arm's length'. These independent or internally autonomous agencies operate under quasi-market principles, relating to each other through contracting and the purchase of services. They are monitored and controlled through performance measurement and targets. The *development of such 'devolved control'* makes the public service becoming a more or less integrated network of organisations that relate to contract and price rather than authority and command.

Using these four market devices, one creates a market for public services that is 'managed'. There is a close regulation of the way such a managed market operates and the control of the pattern of change. What is emerging then is a new form of organisation that is neither a pure market nor a pure hierarchy, but which lies rather uncomfortably between the two. CEE-countries in transition may learn from the experiences of marketisation of public services in West-Europe.

## **7. Four Fundamental Questions**

Alternative arrangements for providing public services have been emerging at high speed since the nineteen nineties everywhere in the Western world. Savas (1987: pp. 58 ff.) points out, that the construction of these alternative arrangements involves four separate questions to be answered:

1. Who is the arranger? The arranger selects, assigns and authorizes the producer.
2. Who is the producer? The producer delivers the service to the customers.
3. Who is the consumer? The consumer takes the services delivered by the producers.
4. Who is the financier? The financier pays for the services delivered by the producers to the consumers.

Nowadays, these four functions in public service delivery are no longer performed simultaneously by the government and its bureaucratic organisations in a monopoly position. Every function can be performed by different organisations, be it pure public, semi-public or non-profit, and pure private. Hence mixed and complicated institutional arrangements emerge. This development offers new chances and possibilities for public or bureaucratic entrepreneurs, who can play an important role in the external organisation of such mixed and complicated institutional arrangements. Savas end up in 1987 with an inventory of about fifteen alternative institutional arrangements between pure public and pure market. A few years later Osborne and Gaebler (1993) produced an even far longer list of about fifty alternative institutional arrangements between government and the market. Therefore the inevitable conclusion must be, that there is not a one-dimensional choice between government and the market. Depending on the answers given to the four fundamental questions many institutional arrangements for public service delivery are available!

## **8. Contingency Conditions for Success**

Success or failure of the application of the four market devices is at least partially determined by so-called 'contingencies' between the public service delivery system and its economic, social and political environment (see Minogue, Polidano and Hume, 1998). There are several contingencies for success or failure, some of them located in the public sector of the economy and some of them in the private sector (see Van Mierlo, 1998).

In the public sector a Democratic Constitution must be present that protects citizens' and human rights against government abuse of power. In addition, the 'Rule of Law' must be reigning: government decisions must be taken by law. Principles of 'Good Governance' should be established in the organisation and management of the public sector. Finally, 'Transparency' and 'Absence of Corruption' must be present. In the private sector a 'Good Working Market System' is a necessary prerequisite. Furthermore, there should be a 'Good Working Financial and Banking System'. Finally, business should be characterised by good working principles of 'Corporate Governance'.

The problem is twofold. If contingencies in the private sector are absent, there is no good working market system available anyway for the marketisation of public services. In that case we do not have even an alternative for good old bureaucratic provision. It does not make it any better if contingencies in the public sector are absent: market devices for public service delivery will certainly be misused for private objectives. In that case there is a market, but the market cannot do better than bureaucracy, only worse.

## **9. Concluding: the Ultimate Goal and Lessons Learned**

One could wonder: what should we do it for anyway, if marketisation of public services has to cope with so many so serious problems? Is this solution not worse than the original problem? Let us summarise shortly the arguments in favour. The main question is: who is in charge of public services, who is the boss? Is it the sponsoring politicians, is it the bureaucrats doing the job, or is it the citizens-clients who are supposed to be better off with than without? In a democratic political system the answer is clear: the citizens are in charge, or should be. Market devices give the power over public service delivery systems back to the citizens: 'empowerment'. In this respect they make government work better, make government do a better job.

What are the lessons to be learned from experiences in West-Europe? To name a few. First, learn from the real experts: the practitioners in the field who have to do the job 'hands on', who have to deliver the public services to the customers. This implies no master plans and no grand designs, no top down but bottom up thinking and strategic decision-making on market devices for public services. Second, institutional variety in public service delivery: let there flourish a thousand flowers, because there are no perfect solutions and no panaceas. There is no public service delivery system as a 'garment for all seasons' (Hood, 1991). Third, dare to experiment, dare to allow for 'trial and error' and for learning by doing. One learns more from failure than from success stories and one can learn from each other! Fourth, market devices for public service delivery require scaling down and not scaling up. Depending on the presence or absence of scale (dis-)economies and externalities, Wallace Oates' 'Fundamental Decentralisation-Theorem' should be applied: deliver public services at the lowest institutional level possible, unless. This refers to the 'economics of decentralisation' and 'fiscal federalism' (Oates, 1972).

Government is far much better in steering than in rowing the boat. Let others row the boat. This implies no the closure of government but a completely new role: that of process architect, facilitator and referee. The market helps government to do a better job: at the end of the day it is taxpayers' money you know!



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